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Bloomberg response to Consultation Paper on the Management and Disclosure of Climate-related Risks by Fund Managers

Q1: Do you have any comments on the SFC's proposal to focus on climate change or should a broader spectrum of sustainable finance be considered in developing the requirements?

Bloomberg would welcome a broader spectrum of sustainable finance to be considered in developing the requirements. While the SFC's focus on climate change and climate risk is an important first step, Bloomberg would recommend the SFC, along with other authorities, to develop a taxonomy to help incentivize the transition of capital towards sustainable investments. Bloomberg stands ready to offer our expertise and support in this endeavour.

Q2: Do you agree that at the initial stage, the SFC's proposed requirements should apply to the management of CISs but not discretionary accounts?

Bloomberg disagrees with this approach. Applying the proposed requirements to only the management of CISs would cause market inconsistency, confusion and fragmentation. In line with the objective to "promote clear, comparable and high-quality disclosures so as to provide more useful information for investors to make informed decisions and combat 'greenwashing'", Bloomberg recommends that climate-related reporting should extend to all products where climate risk is considered material and not just limited to mutual funds. It should be the responsibility of the manager to demonstrate, in a consistent way, how they are mitigating against climate risk and measuring adverse sustainability impacts with regard to financial or climate performance of the investment product.

Q3: Do you agree that the SFC should make reference to the TCFD Recommendations in developing the proposed requirements so as to minimise fund managers' compliance burden and foster the development of a more consistent disclosure framework? Other than the TCFD reporting framework, is there any other standard or framework which in your opinion would be appropriate for the SFC to refer to in developing the proposed requirements?

Bloomberg strongly supports the decision to make reference to the TCFD Recommendations in developing the proposed requirements. Bloomberg chairs and provides the Secretariat for the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD). In our experience, the TCFD Recommendations proactively address the growing investor demand for climate-related information in a framework that investors are increasingly asking for. While many standards are important in the 'ESG' reporting world, TCFD is the only framework to focus exclusively on climate-related reporting and is widely supported by companies, governments, and public sector bodies globally. The October 2020 TCFD Status Report highlighted that financial institutions responsible for assets of more than $150 trillion, including the largest asset managers and asset owners in the world, support the TCFD. On the corporate side, TCFD support has grown to include companies representing more than $15 trillion in market capitalization. This broad and growing support enables the TCFD framework to serve as a foundation for global disclosure standards which will be important to avoiding fragmentation.

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Furthermore, Bloomberg welcomes the Hong Kong Green and Sustainable Finance Cross-Agency Steering Group announcement that climate-related disclosures aligned with the TCFD Recommendations will become mandatory across relevant sectors by 2025. Successfully mitigating climate risk depends on continued, widespread adoption of TCFD-aligned disclosure by companies. Through widespread adoption of the TCFD Recommendations, climate-related risks and opportunities will become a natural part of companies' risk management and strategic planning processes. As this occurs, companies' and investors' understanding of the implications associated with climate change will grow, information will become more useful for decision making, and risks and opportunities will be more accurately priced, allowing for the more efficient allocation of capital and contributing to a more orderly transition to a low-carbon economy.

Q4: Do you have any comments on the proposed basis for determining the threshold for Large Fund Managers, i.e. HK$4 billion, and the basis for reporting? Please explain your view.

Not for Bloomberg to comment.

Q5: Do you have any comments on the proposed amendment to the FMCC requirements, baseline requirements and enhanced standards? Please explain your view.

Bloomberg recommends the SFC to include Scope 1 and Scope 2 quantification in the baseline requirements for both 'Risk Management' and 'Disclosure' sections. Doing so would enable investors to make meaningful comparisons across all funds, and allow for data for listed companies to be available in the market.

Bloomberg disagrees with the recommendations that "Poor ESG Ratings" (item. 54) can be used as a proxy to climate risk. There are divergent methodologies and outcomes from different vendors and not all ESG ratings will indicate climate risk. "ESG scores from major ratings providers can vary greatly from one ESG provider to another" ESG Investing: Practices, Progress and Challenges (oecd.org) pg.29 has some detailed analysis on this point. If a Fund Manager chooses to use ESG ratings or scores to define the climate risk of their investment, it is important that they supplement their disclosure with an explanation of the methodology the ratings provider uses in generating their scores and how this correlates to indicators of climate risk.

Under point 56, the HK SFC should clarify if they mean financially or environmentally material. The context of materiality should be defined such that fund managers can accurately and comparably assess the materiality of climate risk on their investment. The investment community may not have sufficient comfort with the current state of ESG disclosure to extract information of materially-relevant financial value. Bloomberg is also concerned by the risk that fund managers can inaccurately opt out of reporting on the basis of ill-defined materiality. To mitigate against this, we agree with the recommendation in point 60, that the "fund manager should implement adequate procedures for identifying, assessing, managing and monitoring material climate-related risks." This should be applied to all in scope products, regardless of the materiality assessments and without the option to opt out on the basis of climate risk being perceived 'immaterial' to the investment.

Bloomberg believes that carbon footprinting, as recommended in section 62, should have a clear and well-defined methodology to allow asset owners to compare between products and between managers. We recognise that the use of WACI tries to achieve these, but we also note that in other

jurisdictions, such as the EU, carbon footprinting is measured based on an Enterprise Value including cash methodology. "Enterprise Value Including Cash (EVIC) is defined as the sum of the market capitalization of ordinary shares at fiscal year end, the market capitalization of preferred shares at fiscal yearend, and the book values of total debt and minorities' interests. No deductions of cash or cash equivalents are made to avoid the possibility of negative enterprise values." (pg.12 Handbook of climate transition benchmarks, Paris-aligned benchmark and benchmarks' ESG disclosures (europa.eu)). In practice, rare exceptions can occur in which firms report 'cash equivalents' but the financial market does not consider these truly as equivalent to cash and hence discounts their value, potentially leading to negative enterprise values.

It should be noted that short positions, sovereigns, derivatives, securitized products and bonds issued by trusts are excluded from weighted average carbon intensity analysis. Thus products with a large concentration of such investments may not find WACI the most appropriate carbon footprint methodology.

Bloomberg therefore recommends that the SFC applies a methodology consistent with international developments and other jurisdictions, such as the EU. This would ensure that larger, international investment houses can apply a standardised carbon footprinting methodology for all impacted products and for application of carbon transition benchmarks to funds pursuing low carbon strategies. Bloomberg fully supports the need for full coverage of Scope 1 and 2 GHG emissions data, including the sourcing of estimates where necessary.

In the longer term, Bloomberg also recommends the SFC to consider including Scope 3 quantifications. This is with reference to build a level of consistency with international developments, including such example as the EU Climate Benchmarks with Scope 3 being phased-in during a four year period. As part of Bloomberg's overall support of the TCFD, the company has developed tools for climate-related analysis to also include Scope 3 as part of the metrics.

Q6: To provide a clear picture to investors on whether a fund manager has integrated climate-related considerations into its investment strategies or funds, do you agree that if the fund manager considers that climate-related risks are irrelevant to certain investment strategies or funds, it should make disclosures and maintain appropriate records to explain the rationale for its assessment?

Bloomberg disagrees that climate-related risks should be considered as 'irrelevant' to an investment strategy. Doing so would obscure the need for climate-related risks to be mainstreamed into the broader investment methodology and decision-making process. If a fund manager is able to consider such risks as 'irrelevant', then Bloomberg believes that the SFC should provide further clarity and examples of valid rationales for such claims to avoid confusions in the market about 'relevance' and 'materiality'.

Q7: Do you agree that climate-related disclosures (except for the disclosure of WACI) to investors should be made at an entity level at a minimum and supplemented with disclosures at a strategy or fund level to reduce burden on fund managers?

Bloomberg believes that 'Governance' and 'Risk Management' disclosures should be made at an entity level, with strategy and metrics and targets disclosures at the product level. In the event the fund products have separate broad oversight or trustee governance, then this disclosure should be

made at a product level.

Q8: Do you agree that disclosures of quantitative climate-related data such as WACI should only be applicable to Large Fund Managers having regard to the resources required and the size of assets covered? Do you agree that at the initial stage the disclosure of the WACI should be made at the fund level instead of the entity level?

As highlighted in the response to Question 5, Bloomberg recommends the SFC to include Scope 1 and Scope 2 quantification in the baseline requirements for both 'Risk Management' and 'Disclosure' sections; these should not be limited to Large Fund Managers only. Bloomberg agrees that at the initial stage of disclosure of the WACI should be made at the fund level, our response to Question 5 is also applicable here.

Q9: Do you think the following transition periods are appropriate?

a) **a nine-month and a 12-month transition period for Large Fund Managers to comply with the baseline requirements and enhanced standards respectively; and**
b) **a 12-month transition period for other fund managers to comply with the baseline requirements.**

If not, what do you think would be an appropriate transition period? Please set out your reasons.

Bloomberg believes the above-mentioned transition periods are appropriate. We understand that this is consistent with European practice, and we believe that a level of global consistency would be beneficial for the market.